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Doing Business in China: Market Entry Strategies for a Foreign Print-On-Demand Company

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<p>This bachelor thesis is an intensive research for company Printful AS. Research is focuses on strategic decision of how foreign print on demand company can successfully enter Chinese market. Printful is founded in 2013 and it is a Latvian print on demand company that based in the United States and Latvia. They have over 500 employees all over the world. Due to the company rapid expansion, they aim to target the market in China and they are looking for the best strategy and advice to enter the market successfully.</p> <p>Purpose of this thesis is to focus on choosing a right market entry strategy and determine some factors that can affect decision as well as print on demand and E-commerce theory, PESTLE analysis that evaluates several macro-factors and marketing tools. Cultural dimensions are also discussed in this thesis as there are different ways of communication style that may influence doing business between China and Latvia. Aim of this research is to come up with advices and ideas for Printful AS to define which methods would suit best Printful's purposes and objectives. Context for theoretical part is the basis for this research, mainly gathered using printed materials like books, electronic books, professional blogs and articles. In order to evaluate research data and identify issues, threats and opportunities, qualitative research was carried out in a face-to-face interview between two professionals.</p> <p>According to research finding, it shows strong indication of adopting to local culture and corporate culture with local partner when entering Chinese market is a key to success. The best strategy for Printful AS is to enter either a joint venture or a strategic partnership.</p>	
Keywords	Print on demand, E-commerce, market entry mode, China, Chinese

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List of Abbreviation

POD: Print on demand

WFOE: Wholly foreign-owned foreign enterprise

KOL: Key opinion leader

SME: Small-medium sized enterprise

B2B: Business to business

B2C: Business to consumer

C2C: Consumer to consumer

C2B: Consumer to business

1 Introduction

This thesis explores the potential mode of entry into the Chinese market for a Latvian startup company Printful. Research includes print on demand market in China, foreign market entry mode, factors that influence choice of market entry strategy and business ecosystem in China. Result of this thesis is to define which market entry mode is suitable for Printful and what strategies shall be taken into considerations when entering Chinese market.

1.1 Background

In the world of E-commerce it can quickly get lost and move to the wrong direction and apply wrong strategies. With abundance of choice between different business models and service providers, companies may find themselves wondering what it is actually needed and what are correct steps.

China is still a developing country on the way to becoming a market leader in the world. China attracts various industries to come and do business in China. One of key factors for its growth is a rise of E-commerce platforms. According to a comparative analysis between China and United States from IMS (Integrated Management System), China has 2 times more Internet users than in the United States and has 11 times more mobile payment transactions. Despite its leading position, China's Internet penetration rate is only about 50 percent compared to United States, which is about 89 percent. Internet growth in China is expected to raise even more in upcoming years.

Despite huge Chinese market and potential profits that can be earned, China remains to be a risky marketplace for foreign enterprises. To name a few top American tech companies, such as Google, Amazon, eBay, and Uber have successfully grown internationally by offering their goods or services but found the Chinese market more complicated to succeed in. According to report from China Business week more than 48 percent of foreign companies fail in China within 2 years of entering the market. (Marquis& Yang, 2013, p.1)

One of the top reasons why companies fail in China include misunderstanding consumers' needs and ignoring local culture aspects, in which Western companies keep

their home management culture instead of hiring local people or consultants. For Western companies that are used to less strict governments, doing business in China would result in major cultural shock.

This research case chosen company called Printful AS, which is considered to be one of the largest print on demand companies in the world. Printful AS mainly operate their business in the United States, and their headquarter office is in Riga, Latvia. Company is successfully operating its business in Japan, Mexico and Spain. They also aim to expand their business to China due to the fast-growing manufacturing, technology and online entrepreneurship market.

Main concept of print-on-demand and dropship in China is increasing, offering Western countries opportunity to provide innovative technologies. Therefore, this research needs detailed information on various market entry modes which might be used to support Chinese market.

1.2 Research objectives

This thesis focuses on following key concepts: market entry mode, E-commerce, print-on-demand and cultural dimensions. Main focus is on market entry mode for foreign companies wishing to do business in China and understanding print-on-demand and E-commerce market. Chinese business ecosystem is also discussed as a factor that affects market entry decision for Printful. These concepts are researched in primary and secondary data analysis and findings have been carefully obtained and evaluated. Research question is:

- **What is the strategy for a foreign print-on-demand e-business to enter the Chinese market successfully?**

The goal of this research question is to review and provide suggestions. Research can be separated into two main steps. First step is to show what risks foreign company faces entering Chinese market. It combines a formal way of PESTLE analysis and informal context of cultural distance challenges. Second step is to analyze different kinds of market entry modes and factors that can affect decision making.

1.3 Case company introduction

The case company Printful AS is located in Riga, Latvia, founded by Lauris Liberts in 2013. Company employs over 500 people around the world. It is regarded as one of the biggest print-on-demand or dropshipping company in the world. Printful focus their business mainly in the United States. As the company is growing exceptionally, they have several fulfillment centers around the world, including Mexico, United States and Latvia. (Printful 2020; Kumar, 2020)

Printful is an online marketplace that connects independent artists, buyers and end customers. It is well-known for their Print on Demand (POD) service for online store owners. This means all of the products are made to order. When end customer places an order with one of Printful's store owners, they will make the product and goods are delivered directly to the end customers. Thus, Merchants do not need to worry about logistic, production and storage for the goods. Printful also fully integrated with a lot of E-commerce partners in the world, such as Shopify, WooCommerce, Squarespace and online marketplaces like Amazon and Ebay (Printful, 2020; Shubert, p.69)

There are useful tools that help designers to display products and designs while maintaining business. Apart from the mockup generator on the site, they also offer branding options such as personal stickers and customizable packing slips to customers. It is also possible to add your own company logo inside the apparel. In this case, people won't even recognize their orders are coming from Printful. Merchants can easily establish own branding without too much upfront investment. (Printful, 2020; Shubert, p.90)

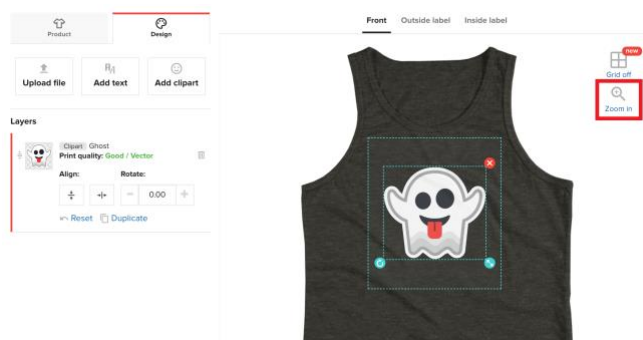


Figure 1 Printful online mockup generator

Further, there are a lot of advantages that Printful offers for their customers. First of all, by using warehousing and fulfilment service, you can ship your inventory to Printful and they will store it for you. These items can also be integrated with your online shop, and once an order comes, they will fulfil your products. Meanwhile, if you don't have your own designs, people can hire inhouse designers to work with you to design a personalized plan for your brand. (Shubert, p.90)

2 Literature review

In order to answer the thesis question, it is first important to review the literature on the topic of business strategy, international expansion and other related theories, which is based on 40 articles.

This chapter focuses on E-commerce and print on demand theory, culture dimensions assessment by using Hofstede theory, PESTLE analysis for identifying macro-environment of a market, marketing perspective in China and market entry mode strategies. In addition, for interview questions and further information concerning real practice on how to set up a company in China are listed in Appendix A, B, C.

2.1 E-commerce in China

E-commerce emerged in China since 1990 when new innovations such as Electronic - data Interchange (EDI) and Electronic-Funds Transfer (EFT) entered China. E-commerce was described only as electronically business transactions. Beginning of China's E-commerce is dated from 1993 to 1995, when technologies that allowed users to exchange business information and to conduct electronic transactions started. (Klooster, 2017)

Although in the West people tend to shop from their vendors that are on the Internet, including eBay, Facebook, Amazon, PayPal, but China has their own E-commerce giants that provide their own services to locals and to the rest of the world. However, these Chinese companies cannot be compared to the Western E-commerce players, due to difference in technology, platform function and distinctive way to operate. For this reason, it is challenging to define which platforms are better in the West or in the East.

In this chapter theory and significance of E-commerce as well as introduction the current giant E-commerce players in China will be investigated.

2.1.1 Definition of E-commerce

As the constant technology involvement, Internet has brought wider changes around the world in the life of modern society. Improvements and changes in organization structures can be rendered by current communication and information technologies. Such changes include business process and affect competitive advantage of the companies. (Wigand, 2017, p.5)

E-commerce is the basis of international economic relations that influence international trade. E-commerce also facilitates many other types of business interactions. For example, creation of international specialization and cooperation, science and technological cooperation, the expansion of trade between countries. These activities lead to significant reductions in trading, advertisement cost, increase workflow efficiency, secure electronic transactions and enhanced logistic arrangement of good and service delivery. (Wigand, 2017, p.5)

E-commerce also includes:

- Electronic Data Interchange: It is an online or offline exchange of commercial or business documents in a standard electronic format between business partners, it is also referred as EDI. (Farlex Financial Dictionary, 2012)
- Electronic Funds Transfer: This requires computerized systems that make transactions easier. Examples of transfer of electronic funds engage cash from an ATM by receiving an order for the stock to be purchased over the Internet, also referred as EFT. (Farlex Financial Dictionary, 2012)
- Electronic Marketing or Internet advertising: The aim of Internet marketing is to offer promotional marketing materials to customers, through mixed marketing activities. This includes email marketing, search engine optimization, social media marketing and many different types of display advertising and mobile advertising. Company can launch ad campaigns and also reward members with

discounts or exclusive offers. These strategies would allow a brand to leverage the Internet reach and potential. (Farlex Financial Dictionary, 2012)

- Online banking or Internet banking: It is the banking management system via the Internet, such as Apple Pay and Google wallet which is also called "mobile wallet service". It helps customers of financial institution to perform financial transactions on a secure website that can be a retail bank or a virtual bank and this can be very helpful by incorporating digital wallet encryption services. (Farlex Financial Dictionary, 2012)

2.1.2 Categories of E-commerce

E-commerce or E-business can be described as an automatic collection of business processes by using Internet technology. E-business impacts internal operation in the company, such as staff engagement, process management, marketing and collaborations. (Wigand, 2014, p.1)

According to Rolf T. Wigand's theory, E-commerce can be defined in four categories:

- 1) Business-to-Business: Referred as B2B, it includes all level of business interaction between the companies. For example, Printful belongs to this category. Retailers can partner with supplier that stores inventory and sends orders to end customer directly upon purchase. Thus, sellers can save on production costs and do not keep goods in inventory. This business model appears to deliver a rapid business process, because retailers only need to be present online and serve as intermediaries between customers and the factory. (Yablonskaya, 2020)
- 2) Business-to-Consumer: Referred as B2C. It is the most common type of E-commerce. B2C implies engagement of clients with business through an online store. B2C is the process of selling directly among a business and customers who are end-users of their goods or services. (Business News Daily, 2015)
- 3) Consumer-to-Business: Referred as C2B. It is a type of system in which customers publish a purchasing project online with a fixed budget and companies

make a bid on the project. Consumers review the offers and select a company. (Business News Daily 2015)

- 4) Consumer-to-consumer: Referred as C2C. It's all about online ads, forums, or marketplaces where people can buy and sell their products. For example, Uber and Airbnb allow consumers to monetized people's own assets in return for services. (Business News Daily 2015)

2.1.3 Benefits of E-commerce

Electronic commerce is an instrument for the creation of modern business models. It allows you to sell products in your online store anytime you want and you don't need any special licenses, suppliers, complicated accounting systems or physical stores in any country. Customers don't have to leave home to purchase product they want, simply click on the "order" button and courier will deliver his requested item directly to his place of residence. (Martinsons, 2018, p.1)

E-commerce allows consumers to purchase goods or services at any time as long as user has Internet access, irrespective of where they are located. Time and space limitations associated with purchases of products or services are removed. In terms of price, efficiency and seller's credibility consumer is capable of comparing deals of various traders online. (Martinsons, 2018, p.1)

Key benefit of E-commerce is to provide all information about this product to your present or prospect customers, they can easily pay online anytime and anywhere in the world. (Martinsons, 2018, p.1; Klooster, 2017)

2.1.4 Limitation of E-commerce

Despite all advantages of E-commerce, there are few disadvantages of E-commerce platforms.

- Concerning confidentiality and protection, since Internet means open access and are vulnerable to external control. All information like email address is distributed through the Internet by the plurality of computer systems before its final

destination is reached. With that being said, it is trackable and storable. Personal details such as credit card information, private information may be captured by hackers or computer thieves. Introduction of electronic bugs or VPN corporate websites making them hardly accessible as a result. (Išoraitė, Margarita and Miniotienė, Neringa, 2018, p.197)

- As far as price is concerned, the failure to seek, check and experience the product is another major drawback. Because of this reason, many people in online shops don't purchase clothes and shoes. Many online shops offer customer comprehensive product summary and option to return or change product if buyer is not satisfied with quality or product does not physically fit buyer. (Išoraitė, Margarita and Miniotienė, Neringa, 2018, p.197)
- As far as hidden costs are concerned. All potential expenses, such as, delivery fee, handling and potential taxes, can be described most frequently on the website. Often consumers bear responsibility for expenses such as taxes or shipping fees, which take time to decide if total amount of additional expenses is worth or not and might actually exceed the original sales amount. (Išoraitė, Margarita and Miniotienė, Neringa, 2018, p.197)

2.1.5 Chinese E-commerce platforms

Alibaba group

Alibaba Group Holding Limited was founded by Jack Ma in 1999. It was initially used as a B2B platform for customers from China and abroad. The business is currently offering in C2C, B2B, online payment, search engine and data center computing services all over the world. (Alibaba Group 2016) Users can access the platform anytime from anywhere through Alibaba, via a PC or a mobile phone, which not only allows users to navigate the website easily, but also provides additional functions via integrated applications, such as price comparison analysis on interest products, payment services or the social network which allows them to choose different vendors that follow the latest developments which

allows them to choose different vendors that follow the latest developments. (Group 2016 Alibaba)

Figure 2 Alibaba continues to lead retail E-commerce sales in China

In the retail market, Taobao and Tmall is considered to be the largest and most influential



online market in this sector.

Taobao

Taobao is China's largest C2C and B2C platform network market. Taobao in Chinese meaning "to find a treasure". Alibaba Group launched the website in 2003. Taobao Marketplace provides the retail industry with a share forum for small businesses and companies to open online stores that primarily serve Chinese-speaking (China, Hong Kong, Macau, Taiwan) customers and foreigners as well. The sales charged via online phone accounts. The industry is opened via Taobao marketplace for customers. Usually, their stores provide their customers express delivery service. (Taobao, 2020)

Tmall

Tmall was launched in 2008, which offers wide range of unique stores and manufacturing companies and other retailers for consumers. Tmall is the platform that offers high quality goods and services which can not be easily found for consumers. Every provider on this platform has its own brand. High-quality premium brands from around the world operate on this site. (Alibaba Group 2016)

JD (Jingdong Mall)

JD.com and Jingdong Mall are China's largest online company B2C platform, founded by Liu Qiangdong in 1998, but only began operating as a B2C in 2004 and is the direct competitor of Tmall. (JD.com 2013)

Amazon.cn

Amazon.cn is introduced as a Chinese subsidiary of Amazon.com in the United States and is one of the first shopping sites to offer a wide variety of products and services from all over the world. (Amazon.cn 2016)

2.2 Print-on-demand and dropshipping

There are many companies that offer seemingly similar, but often slightly different products and services, so you need to grasp these differences to choose the best partner for your business, especially when you want to enter Chinese market.

To begin with, it is important to clarify a few misconceptions about the term “dropshipping or print-on-demand”. There are many entrepreneurs who make the statement that they want to start a dropship or print-on-demand business, in fact, what they mean is they want to become a retailer who uses the best priced products from their resources and beat the competitors. (Shubert, 2018, p.68)

2.2.1 Definition

Both print-on-demand and drop shipping are very similar. POD stands for “print-on-demand”, and its printing products include T-shirts, swimming wears, backpacks, and many other types. Usually print on demand companies would include printing, designing, editing, and shipping. Your designs are printed on products only as orders come in and only in the quantity that the order asks for. (Ferreira, 2019)

Drop shipping has a business model in which store doesn't keep an inventory of the products it sells but purchases them from third party supplier who then ships the products directly to end-consumers. However, dropshipping allows to pick from millions of items

for sell. Dropshipper will also ship goods on your behalf directly to your customers. (Park, Changkyu, 2017)

POD products are very popular and a variety of advantages. Customers can buy for personal use or sell to other people with your own unique design. Therefore, it is a great platform for artists or graphic designers to show off their art masterpieces, and this can increase an additional income for them to use as promotion. It is also very popular amongst online influencers that create some marketing campaigns on their website.

Dropshipping and POD are very similar terms and their order processing is mostly automated. There is no need to have bulk inventory available in advance because supplier packages and ships goods directly to the customer, so they just have to click a button to submit supplier product details. Therefore, both drop shipping and POD has very low risk, because they do not need to purchase an up-front inventory, and just pay after customer places order in online store or website. On the other hand, print on demand requires strong design skills comparing to dropshipping. Thus, this allows both business models to focus on marketing, customer service and advertising. (Spandega, 2018)

In terms of profitability, usually drop shipping has greater profit margin, because there are millions of products to choose from and much lower shipping cost compared to print on demand, you can sell any type of item and for this reason you can scale quickly. For print-on-demand, you have limited mockup generators to choose from and it requires strong design skills, but both target different type of customers. For instance, print-on-demand is suitable for online influencers who have substantial followers and wish to create some promotional products on the side, every products and packaging is customizable to create strong brand image. On the other hand, drop shipping is suitable for those who just start their entrepreneurial journey in selling items online with much lower shipping cost. (Spandega, 2018)

2.3 Cultural dimension in China and Latvia

Due to the rapid growth of the Chinese economy, an overview of the cultural aspects that define the culture itself is important to be studied and compared to the country of origin. China's strategy and way of operating is somewhat different from the West. In addition, Chinas society is still conservative and the characteristics that come from Asian culture

are still commonly used. It is important to understand the culture in order to conduct a successful relationship with them.

In this chapter, the research is focused on the analysis performed by Professor Geert Hofstede, who has measured scores in 76 countries and regions in 2001. (Geert Hofstede n.d.) Hofstede describes culture at the national level as a collective programming of the mind. Hofstede researched IBM workers from several different nationalities and national cultures in four different dimensions in his early work- power distance, individualism and collectivism, masculinity and femininity, and uncertainty avoidance. (Hofstede G.,1980b)

In this chapter each model and how it differs from Chinese culture versus European culture will be discussed.

2.3.1 Power distance

This chapter concentrates on the metric showing how well leaders of a community succeed in their cultural hierarchy. The higher the index, the more it corresponds with authoritarian society, the lower it is, the more democratic it is. Term "power distance," can reflect to inequality between individuals and people's attitude towards it. (Geert Hofstede n.d.)

Chinese society has a very high hierarchical character which strongly influences business world. Relationship between employer and employee is typically pure contractual. Lower ranged workers regularly interact hierarchically with their superiors. This means that workers should interact with their supervisors in such a way as to be subjective and respectful, even though they do not consent to what their supervisors are saying. However, the power of Chinese business culture is characterized by large gap of power distance. (Geert Hofstede n.d.)

2.3.2 Individualism and Collectivism

This aspect is about how individuals in a particular culture should be part of a group rather than individualistic in their own thought and behavior. Individualism is a type of ideology that emphasizes importance of individual's personal goals and interests. Individuals with high individualism rates are leaving the group goals behind and focus

more on their own goals. On the contrary, collectivism indicates that there is greater importance on the common goals and healthy relationship with the members of the group. The self-reflection of an individual in this category is defined as “We”. (Geert Hofstede n.d.)

Research shows that, China favors the group implies that this aspect described as a low individualism. Main reason for this is because Chinese are mainly strongly influenced from their core belief in which family relationships are very important. Therefore, the purpose of a collective society is to preserve and maintain the harmony. (Geert Hofstede n.d.)

2.3.3 Masculinity and Femininity

According to Hofstede, the high degree of masculinity represents strength, power and purpose. In masculine dominate cultures, there are huge gaps in gender roles, commitment, ambition, and independence level. People in masculine cultures are highly driven and they see the value of life in their career and highly appreciate the rewards from it. Therefore, there are major gaps in respecting men and women more in the evaluation of men and women in these societies. Achievement and competitiveness are considered to be main sources of job satisfaction. (Geert Hofstede n.d.)

On the other hand, femininity means the desire for harmony and concerning for the poor. Both men and women should be respect each other, being humble and they should be concerned about quality of life. Gender roles are also not so clearly established in femininity cultures. They emphasize on interdependence, support each other and aims for a healthy peaceful environment. The goal for femininity is that everything can be solved by negotiation or finding a compromise. (Geert Hofstede n.d.)

2.3.4 Uncertainty avoidance

Generally, cultures with high level of uncertainty avoidance have a low degree of uncertainty tolerance that results in high anxiety and violent behavior. People from these cultures have a strong demand for standardized rules. Countries with a low degree of uncertainty avoidance tend to feel secure, healthy and can accept ambiguity. In addition,

a low score indicates that people are not completely controlled by given situation. (Geert Hofstede n.d.)

Although China's market opens, but government is extensively regulating all activities, but the dimension of "losing face" in China is strongly followed. It means that people willing to follow laws and rules due to the strong cultural tolerance of conformity. At the workplace, this aspect manifest itself for employees needing clear guidance rather than implementing its own decision-making. (Geert Hofstede n.d.)

2.3.5 Long-term orientation and Short-term normative orientation

This dimension describes how every culture has its connection with its own history when facing today and future challenges. Long-term orientation values future goals, dreams, more savings and persistence attitude. Short-term orientation values more from the past or present, such as fulfilling personal steadiness, stability and social obligation. (Geert Hofstede n.d.)

Chinese culture focus on longer term goals, meaning that they will think strategically rather than satisfy themselves in a short term. Chinese can easily adapt their current practice to the modern world, they are more likely to invest, save and achieve great results. Further, Chinese culture has a clear historical sense of grandeur and they tend to have a clear perspective of time. This takes into account the Chinese's long-term perspective. China is aiming to become the next superpower, and it certainly appears to dream big and look ahead. (Geert Hofstede n.d.)

2.3.6 Indulgence vs. Resistant

Indulgence is a concept that allows society to achieve satisfaction of the basic human needs and associated with the quality of life and happiness. On the other hand, in resistant society, they suppress and regulate these needs with strict social norms. The higher the complacency, the more relax and less anxious people become. China is a restrained society where people tend to feel pessimistic and reserve their feeling and behavior. (Geert Hofstede n.d.)

2.3.7 Cultural dimension in China and Latvia

In this chapter we will take a closer look at the Hofstede scores of above mentioned dimensions and compare Latvia with China.

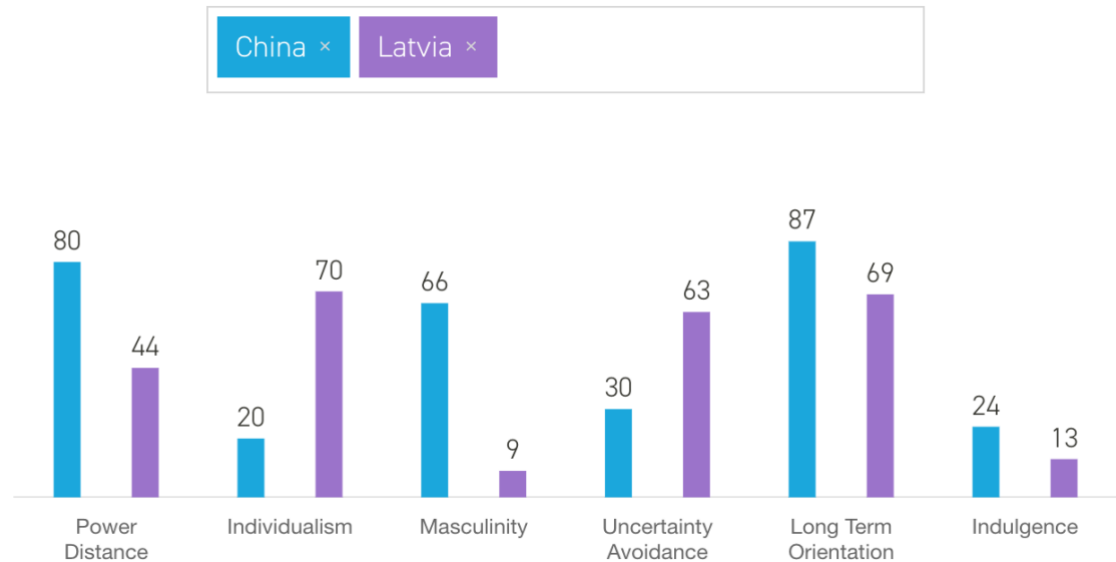


Figure 3 Cultural Dimensions in China and Latvia by Geert Hofstede

It is obviously to see that China has much higher score on power distance, masculinity and long-term orientation.

According to the score of 44 in Power Distance, Latvian prefer to be more independent, people in Latvia value equal rights, encouraging and empowering management and the system. It also means that Latvians are more concerned about openness to authority and reduce social inequality. In the interests of better work or promotion, Chinese are more communistic. They are optimistic and productive and prepared to sacrifice their hobby, family and leisure time, while Latvian people quality of life and caring for others are more important. Latvia has a ranking of 70 and is known as an autonomous country. People tend to look after themselves and their families. At the workplace relationships are purely based on mutual interests. (Geert Hofstede n.d.)

China got score of 66 in masculine culture, which means it is highly productive and highly motivated. In the lives of individuals, performance plays a significant role. China is a paternalistic society, thus it does not adhere so strongly to Western working style and living models. However, there are many women in business and trade industry in China, and this aspect can be described like the West in which women are treated equally with

men. Compared to Latvia, where score is only 9 points, which means Latvia tend to value peace, quality of life and where happiness is the key for success.

Latvian people show slightly lower rate of long-term orientation dimension with 69 points compared to China. The nature of doing business in China requires time to complete and make a strategic decision, while companies from the west must have a careful budget plan for it.

Latvia is rated as a country with a pessimistic attitude with score of 13 points in indulgence which shows similar result in China. Restricted societies have little focus on leisure and control the gratification of desires. People feel social pressure that feel indulging that there is something wrong with themselves. (Geert Hofstede n.d.)

2.3.8 Chinese business custom

China's role in the global economy has increased dramatically in recent years. Country's economic growth helps global business community to analyze Asian market and the characteristics of the Eastern business etiquette more closely.

China is still being preserved and these features that come from Asian culture are commonly used in these matters. Face, guanxi, and other cultural standards are changing in China, but for companies which intend to do business with Chinese need to understand fundamental level of cultural competence that remains important.

Face

Face is the aspect which would appear in highly collectivism culture. It would enhance hierarchical status in entire social ecosystem. (Feldman, 2014, p.9)

Meaning of Face in China is similar to the West, but the importance of Face is much more valuable and important in Chinese society. A Chinese individual as a member of collectivist society has stronger group interest and value them more than his or her personal achievements and goals. It is possible to lose face and reputation if individual does not act decently in family, work or public organizations. Losing face may result in very strong negative outcome for individual. (China Business Review, 2008)

Awareness of Chinese hierarchical structure and respectful standards will bring you one step closer to recognizing China's definition of "Face". In Chinese business culture, hierarchy plays an extremely important role. Another crucial distinction between superiors and workers is that the former tends to distinguish themselves from the latter. It is not appropriate for people in China, compared to Latvia, to call superiors by their first name. (Jocelyn Kan 2004, p. 206)

In China, arguing with the person who is older or someone who is in a higher position is not acceptable. It is recognized not only as an etiquette violation, but also violation of national customs in general. (China Business Review, 2008)

Additionally, in terms of Face aspect, Chinese companies would carefully disclose mistakes to the public, either in a group meeting or employee gathering. Because this is considered as "losing face", thus, it is better to discuss issues privately. Politeness is also very significant element to have when integrating in Chinese culture. When it comes to politeness, it is preferable to reciprocate by offering a dinner invitation or sending a gift. (China Business Review, 2008)

For the favor of most Western companies, it is better to use an intermediary service in order to conduct these gestures and they could represent your company formally. This can help to establish a successful business relationship with China. (Chinese Market Review, 2008)

Guanxi

There is one important thing to note as "Guanxi", which refers to people's connection. Every businessman should have heard the phrase, *"no matter what you do, it is important who you know."* (Martinuzzi, 2018; Chinese Market Review, 2008)

Particular concern about the important route to get into more senior and influential role for a significant reason. As matter of fact, this concept is not too distinctive than the Western society. But the main difference is the degree to which the favors are made. It is common to ask for favor from a friend, such as looking for job, getting discount from merchants or free tickets to an event in Western society. In China, the favors will be related to much more important things especially related to professional business world in order to get your deals done.

All process of evaluation is more vulnerable to political interest in hierarchical society. However, Western companies cannot violate their own standards without compromising their participation entirely in hierarchical culture. When entering into guanxi relations, they would easily consider as an unethical action because of their own beliefs. On the other hand, this does not mean that Western has higher values than Chinese values. As Chinese have little faith in impersonal relationships and have more faith in personal connections, whereas the West trusts in contracts and is willing to take action when they fail. (Feldman, 2014, p.11)

Of course, guanxi is not a main objective for success in business, but a good guanxi would help smoothly to get your deal done and more favorable for all parties, either it's for your partners, suppliers or clients.

"Consider making efforts to maintain the connection with your Chinese counterparts. If you say, "Let's stay in touch," it's important to mean it and follow up on it to keep your guanxi alive." (Martinuzzi, 2018)

2.4 PESTLE analysis

A dynamic environment has now become important to adapt to in a changing and competitive environment. This has now become a necessity for any decision-makers which wants to keep their company thriving and growing in future. It is not a secret that it is possible to detect the opportunities and threats by recognizing the macro-environmental factors. (Alanzi, 2018; Kotler, 2010, p.68)

The aim of PESTEL's analysis is to show what is going on in the business environment and in macro-economic world. All businesses are part of the economy system. A PESTLE analysis would let you analyze all major factors which can influence the business's success or failure. PESTLE is an acronym for the following elements: Political, Economic, Social, Technology, Legal, Environment. (Alanzi, 2018)

However, identification of a new business opportunity does not guarantee success even if it seems theoretically feasible in its setting. Obviously, knowing and assessing the reality and how the microenvironments can be affected (customers, participants in the market, the business and its offerings) can be a major issue. (Kotler, 2010, p. 68)

2.4.1 Political

According to the Constitution in China, "*The People's Republic of China is a socialist state under the people's democratic dictatorship led by the working class and based on the alliance of workers and peasants.*" Business operation and marketing decision in China is heavily influenced by political and legal developments, mainly involving government agencies, laws and interest groups which control and limit organizations or individuals leading to new businesses in some cases. Special interest groups are one of the key factors that affect political climate in this case. Over recent decades, number of special interest groups has greatly increased. (Kotler, 2010, p. 80; Fogel, 2010, p.18)

It is important to note that China has more complex political interaction, which are continuously struggling with different interest groups (social, cultural, ethnic, professional and religious). One of the most challenging and significant problems regarding addressing political challenges is the integration of interests of particular groups and the whole society. (Kotler, 2010, p. 80)

Special interest groups consisting of people with different social classes that have ability to control power and resources, such as seeking to recognize and take advantage of and interfere with Chinese reforms and policies. (Kotler, 2010, p. 80)

It is a good sign from one point of view that promotes marketing in terms of customer interactions, while on the other hand, it contributes to an issue with respect to privacy and additional force openness also known as consumerist movement. (Kotler, 2010, p. 80)

2.4.2 Economy

In the last few decades, China's economy has experienced remarkable growth, which makes it the second largest economy in the world with a GDP of \$13.1 trillion. Before the economic reforms and trade liberalization 40 years ago, China had conducted policies that kept the economy very weak, centrally regulated and highly inefficient which resulted in total exclusion from the global economy.

Since 1979, China had opened to international trade, foreign investments and introduced free-market reforms and has been amongst the fastest-growing economies in the world.

The country ranked 9th position in GDP with 214 \$ billion and 35 years later China became the second largest economy with a nominal GDP of 9.2 \$ billion.

In 1978, the Chinese government lead by Deng Xiaoping introduced very important Economic Reforms. This was an essential step of entire Chinese history and also the whole world in terms of economy. These changes covered different aspects of state policy, particularly the level of regulation of business operations by the Communist Party which opened more trade relationship to the world. As a result, China started developing very rapidly in all areas, especially in openness of society mindset, many foreign economic affairs and more foreign investments. Generally, in a very short time, China has reached and overcome levels of development, such as technology advancement, industrialization and took over the economic power of majority of the countries in the world.

There are various hypotheses of the future for the Chinese economy after a decade of uninterrupted growth. According to McKinsey & Company, (2019), Chinese economy is slightly softened with GDP growth landing between 6.0%-6.2% compared to 6.8% - 7.0% in the previous year. This economic slowdown was defined by General Secretary of the Communist Party Xi Jinping for referring this as “New normal”, which implies that China is trying to rebalance its economy with a slower but more sustainable economic growth. (Zhang and Chen, 2017)

China has become the global manufacturing center since the implementation of economic reforms in 1978. For this reason, it would take this Printful company case to discover more interesting business strategy to operate already very competitive manufacturing market in China.

2.4.3 Social

The role of value is extremely important in the life of the individual and of society as a whole. Social factors apply to the cultural values and behaviors of your targeted demographic and that of your employees, partners, competitors. Over time many changes take place in society. (Journey academy; Alanzi, 2018; Kotler, 2010, p.78)

According to society in China, there are variety of information available across the society, in particular online, for this reason a selection of messages has become a process in

communication, this includes social relations, emotions, feelings as well as development of interaction skills. However, value does not mean towards particular things but an attitude towards events and processes. For any culture, relationship of a human being, society, and the environment are very important. (Kotler, 2010, p.78)

This chapter explores understanding of Chinese social environment on various aspects such as individuals, businesses, culture and nature. (Kotler, 2010, p.78)

- Perception on themselves: Chinese consumers regard their behavior as more open and ambitious on their goals. It became more common to follow hobby and leisure pursuits. (Kotler, 2010, p.78)
- Perception on others: Nowadays, people in China focus more on social affairs, such as health, crime, suicides and loneliness. Meanwhile, people tend to feel more isolated from society and lack of meaningful lasting relationship with others. For this reason, a lot of companies in China innovate products that can facilitate indirect social interactions, so people will not feel lonely, such as video games or applications like TikTok (抖音 – DouYin). (Kotler, 2010, p.78)
- Perception on organization: People consider work only as their main source of income and not as a source of happiness and enjoyment. This demonstrates degeneration of loyalty to the company which in turn forced companies to find new ways to meet employee trust and respect to ensure people have no intention to damage the company's image. (Kotler, 2010, p.78)
- View on nature: As the global climate is constantly changing, the impact on the environment can be very challenging as resources are limited. People in China continue to raise interest in harmonizing with nature, as ecologically sustainable goods have shown an increased demand amongst locals. (Kotler, 2010, p.78)

People in China are constantly influenced about their core belief for their life. In terms of elderly generation in China, they would pass knowledges to their children so the whole family to next generation can stick with their core values. For instance, get married in the early age, otherwise it will impact their lives negatively. Marketers may try to change their conception, but it is very challenging to alter their core values. (Kotler, 2010, p.78)

Another important factor is emergence of sub-cultures, meaning a group of people tend to share same values, interests, which can influence the market. A group of people share similar opinions, expectations and attitudes towards consumption decision. Marketers usually target teenagers, because of their common belief and view on music, fashion and entertainment which could potentially become a loyal customer in the future. (Kotler, 2010, p.78)

2.4.4 Technology

Technology represent human understanding of natural laws and phenomena since ancient times, perform certain functions that fulfill our needs and desires (Li-Hua, 2004). New technology can make technological breakthroughs simpler and can also result in creative destruction. (Kotler, 2010, p.79)

During 1990s to 2010s, science and technology grew quickly throughout China. The Chinese Government has made science and technology a significant part of the country's economic growth, reforms and status. Thus, China has become a global leader in certain fields. Rapid development can be seen in such areas as education, infrastructure, publishing, manufacturing and high-tech innovation. In addition, China is now concentrating on indigenous creativity and strives to improve its remaining flaws. (Lin, 2012, p.35)

After more than 10 years of effort, China has successfully developed modern Internet network that cover up to 2000 cities across the country as well as connects with all major global networks worldwide. (Pathak, 2014, p.3)

Main areas of interest for scientists in China today are biotechnology and robotics. Challenges of innovation in product and manufacturing processes are not only technological development but also commercially. The key objective is to create cost-effective models. For example, advancement of virtual reality where users can experience sound, sight and touch in three-dimensional digital world has allowed marketers to bring customers together for the new car designs, kitchen layouts and other future innovations. (Kotler, 2010, p.79)

Use of diverse technological products have become more complex and public must be assured of their safety. Government agencies inspect and restrict goods that may be

unsafe. Public safety and health are becoming a huge concern for Chinese consumers, particularly food, automobiles, electrical appliances and construction industries. Marketers and decision makers shall consider these factors when planning launch of a new product to the Chinese market. (Kotler, 2010, p.79)

2.4.5 Legal

There is an increased trend when dealing with business regulations in legal environment. Due to the movement of the interest groups which have a strong impact on political environment. (Kotler 2010, p.80)

Becoming a member of World Trade Organization, caused China to conduct complete revision of its legislation and regulations in order to comply with WTO guidelines. China would require its judicial system to adhere with international standards by opening its markets up to sectors such as finance, insurance, telecommunications, trade, transportation, construction, tourism and other sectors. (Pathak, 2014, p.3)

Chinese Business Law has three main roles and objectives: defending businesses from unfair competition, safeguarding customers from unfair business transactions and protecting customers from unfair business practices and protecting society against unregulated business behavior. Countries such as the United States and the EU have also passed legislation regulating pricing and business conduct, the principles of safety and liability, fair trade, packaging, labeling or trade. (Kotler 2010, p.80)

Although there might be compelling reasons for new regulations, it may inadvertently affect business activities and economic development in a bad way. In China, decision-makers and managers are still in the way to reach European and US corporate standards, strong working knowledge and business ethics. (Kotler ,2010, p.80)

Since E-commerce has rapidly growing around the globe. According to Statista, China has the foreseeing five years growth rate of 70.7%, compared to second place for US with 45.7%, France, Australia and Russia. It is obvious to see that China is taking over the world largest E-commerce market, which currently is worth over 1 trillion US dollars. For this reason, it is essential to note that China is taking actions on protecting its market and making sure its regulatory framework is in place to encourage healthy development.

With this in mind, there has been a need for more efficient regulation of E-commerce businesses. New E-commerce law in China came into force on 1 January 2019. This includes *“the issues of counterfeit goods, consumer fraud, privacy, theft of intellectual property, tax evasion and the promotion of competition and consumer protection.”* (FDI China, 2019)

In China, there are some limitations and restrictions, which target specifically foreign enterprises, therefore, it can be really challenging and time consuming to establish a foreign legal entity in China. E-commerce law of People's Republic of China is the main source for taking into account when you operate the business in Mainland China. However, China will continue to protect local Chinese firms while encouraging foreign companies to open stores in China in exchange of accessing to Western technology in Chinese companies. (INS global consulting, 2018; Kotler, 2010, p.80) Moreover, China has a political force that needs to have positive control over everything that happens within its borders. (Kotler, 2010, p.80)

2.4.6 Environment

In recent decades, China's attempts to foster economic growth led to disastrous environmental consequences. Chinese government is very strict when it comes to preserving environment, which resulted in enforcing many legislations and laws to protect environment, avoid and control industrial emissions and improve urban environment. As China has become one of the world's largest production region, climate conditions have been very bad for a long time and has caused tremendous health damage and social harm. In the past two decades, in particular, the environmental and pollution policy has undergone drastic changes, experiencing a shift from weak to solid. Recent environmental issues have grown into a matter of political importance in China. (Khan & Chang, 2018, p.3; Kotler 2010, p.68)

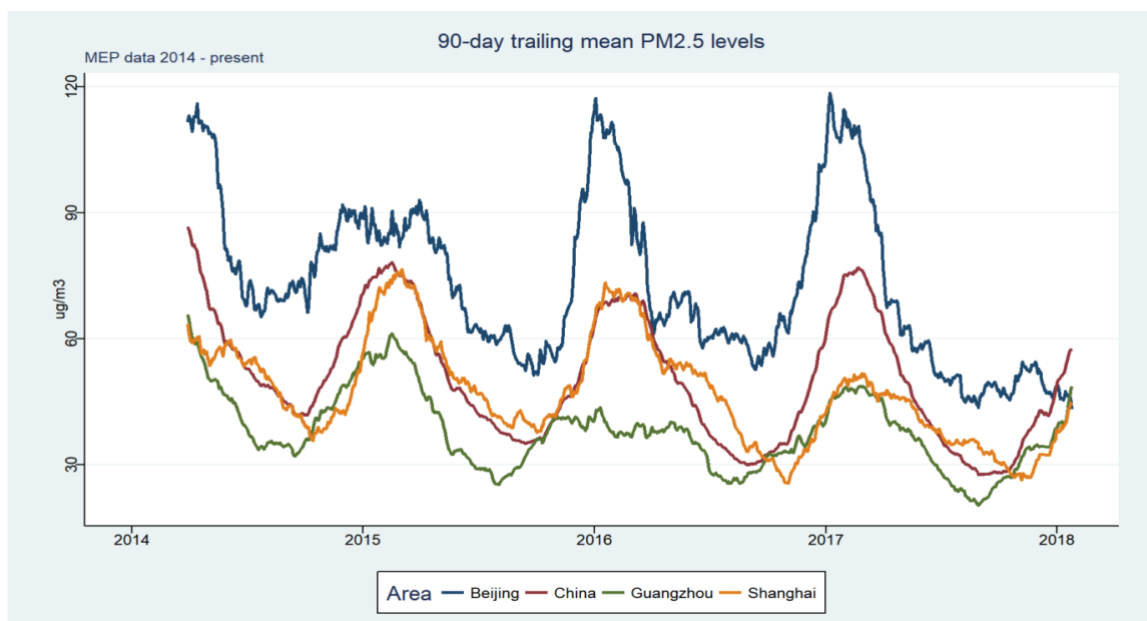


Figure 4 Air pollution rates in Beijing, Guangzhou and Shanghai

Beijing has long been known as the world's city for air pollution. After the government implemented its air quality action plan, as can be seen in Figure 3, the amounts of fine particulate matter in Beijing in 2018 have dropped for the first time in the record that below the national average. Strict inspections of industrial plants and operational limits for polluting industries have been enforced, including the biggest closure of steel plants in history. (Howard, 2018)

On the other hand, all these factors affect lives of Chinese people who in turn appear to be conflicted about product decision which may cause damage to environment. This leads to China increase the popularity with Green Marketing and also throughout the world. (Kotler ,2010, p.68)

Green Marketing is a promotional technique aimed at taking advantage of shifting consumer attitudes towards the brand. These changes are increasingly influenced by the policies and practices of an organization which influence quality of environmental and represent the level of national concern. (Ward, 2020)

The emergence of a large market for pollution pressure is leading to scrubbing systems, recycling centers and waste disposal systems. This concept has inspired many companies to pursuit ecofriendly designs and modify traditional way in which products are packaged. (Kotler ,2010, p.69)

2.5 Marketing in China

The way of doing business in China is constantly evolving, mostly because of the economic boom in China that has led to changes in consumer behavior and a wide range of advanced technology. This can encourage organizations well integrated in the digital society and plan their marketing campaigns differently from previous ones. (Zuani, 2017,p.51)

Some worldwide used and known social media platforms are not available and are not famous in China, such as Facebook, Instagram, WhatsApp or YouTube. It is important to understand the political context in China before analyzing which social media attract Chinese people the most. As the Communist Party's Chinese Government exerted a strong influence on economies and business environment, particularly with strict policies regard to newspapers, publications and resulting in forms of censorship. (Zuani, 2017,p.51)

From the marketing point of view, the censorship regime affects conventional forms of communication tool, such as television, social networks, web search engines. (Casagrande, 2018, p.100) Facebook, Twitter, Instagram, YouTube, Google are some of the first blocked websites in Mainland China, and the latest restriction of July 2017 is aimed at the chat application, WhatsApp, due to an acquisition by its founder of Facebook. In May 2017, General Secretary of the Communist Party Xi Jinping strengthened laws on control over the internet. The new Cyber Security Law (CSL) enables government to obtain all digital data of Chinese citizens. These restrictions are constantly being used against the government through the evaluation of the violating of privacy, but the Chinese Government main aim is on the "benefit the citizens and the country." (Zuani, 2017,p.51)

Social networks have significantly influenced online computing by offering users ability to connect to others and create massive content every day. A vast number of articles, photos, videos, news and conversations, which are constantly posted to social media, represent tremendous user engagement in these social networks. Popular networks like Facebook and Twitter are world-famous and have hundreds of millions of users worldwide. On the other hand, Sina Weibo is the most common microblogging network in China. It has millions of users, and most users all located in China and publishing content in Chinese.

Social media platform	Early stage users	2019 users
Facebook	100 million	2.5 billion
Twitter	6 million	330 million
Instagram	1 million	111 million
Whatsapp	200 million	1.5 billion
Wechat	195 million	1.16 billion
TikTok	50 million	800 million
Sino Weibo	198 million	486 million

Table 1 Growth of social media users (Sources: Stastica)

All of these social media platforms have affect on people every day, whether it is a social network, application used for messages, or a video platform, and there are more people using these platforms daily (as statistics on social media show). This makes social media channels the ideal tool to handle corporations marketing campaigns in the digital world.

2.5.1 Social indicators

China is the largest developing nation in the world and has total population of about 1.3 billion people, with a middle-class population of 11.9% which increased rapidly to 290 million by 2011. Lifestyle and development in China are constantly changing in many ways, including consumption behavior, attitude to new products and services, life quality improvements and overall quality satisfaction. Overall standard of living in China was improved and China's younger generation's lifestyle is increasingly changing to being more Western like. (ILLIA BUSINESS, 2014)

Further, BCG data shows that just 7% of the Chinese consumer population in 2010 was upper middle class and affluent, in 2015 there were already 17%, and by 2020 it is forecasted to be 30%. Throughout the peak years of China's economy, millions of people's incomes were shifted from poverty to a growing middle class, in terms of annual disposal income, which rose from annual income of \$10,000 to \$16,000 and to the middle class, those with annual incomes of \$16,001 to \$24,000. (Pathak, 2014, p.2; bcg.perspectives, 2015)

Corporations and companies must take into consideration not only the highest first-tier cities but also second-tier, third-tier, and also four-tier cities or lower to be able to reach upper-middle-class and affluent households. According to BCG group, they are

encouraging businesses to develop the presence of their goods in at least 430 cities that plan to hit a minimum of 80% of the total market share. Chinese rural areas should be taken seriously by companies because by 2020 the highest percentage of the growth in speed and usage of small cities will take in place. (bcg.perspectives, 2015)

2.5.2 Demographical indicators

People who were born during 1980s to 1990s are at the turn of the 21st century are known as the "new generation"; rather, "the last generation" of people born in the 1950s to 1970s is sufficiently become a prevailing consumption force. According to BCG perspective, the rate of consumers in the age of "young generation" is increase by 14% per annum, which is twice as much of consumers over than 35 years old. By 2020, it is expected that the figure for young consumers will increase from 45% to 53%. This means that the younger generation is investing more and consuming more instead of "old generation," and there is significant reason for this. (bcg.perspectives, 2015)

During the time of social instability and challenging economic conditions, most people who came to adulthood in the 70s or older, who is now 35 years old experienced much more difficult period. Younger generation is raised during the peak growth of China, however people in the group of young generation are eager to spend more. (bcg.perspectives, 2015)

2.5.3 Social media platforms

Based on this political situation and the significance for the Chinese marketing environment of the social media, following introduction analyzes the Chinese online channels to be taken into account by international investors and organizations when entering the China market.

Wechat

WeChat currently has more than 938 million users and is listed as the largest market share of Chinese social media platform. Wechat is also called "Weixin" in Chinese, meaning micro-messages. Wechat was introduced as a user-friendly application to communicate text and voicing messages. Founder of Wechat is Zhang Xiaolong, Wechat

belongs to Chinese tech giant group “Tencent” that developed the instant message app back in 2011. Today Wechat is constantly changing, it extended its services and has become a “Facebook of China”. (Zuani, 2018, p.53-54)

In addition to the instant messages and social network functions, users can also promote their own business, every user can share photos and comment people’s posts in “Moments” section of Wechat. Wechat also gives people possibility to purchase products or services and use it as a payment method with the “Wechat Pay” function, people can easily transfer money with each other, likely with Alipay which is their direct main competitor. (Zuani, 2018, p.53-54)

Furthermore, Wechat is consider the most amazing tool for foreign companies that intend to implement a digital strategy in China. Companies can create page, share content, promote their products which is very important to raise the awareness of their goods to potential customers. (Zuani, 2018, p.53-54)

Sino weibo

Sino Weibo has been founded by Sino Corporation in 2009 as a microblogging platform. It resembles as Twitter in China, which allows users to exchange feedback, ideas about various topics, but also limits the amount of words to be exchanged in one post. It is considered as the most popular China’s micro-blogging services, and it is preferred platform for the most Chinese newspaper, TV stations. According to Statista there are more than 480 million users in 2019 and is forecast to increase. With its exceptional growth, it is important to understand that Sino Weibo enables companies to communicate with their customers efficiently. (Zuani, p.55, 2017; Allen, 2017)

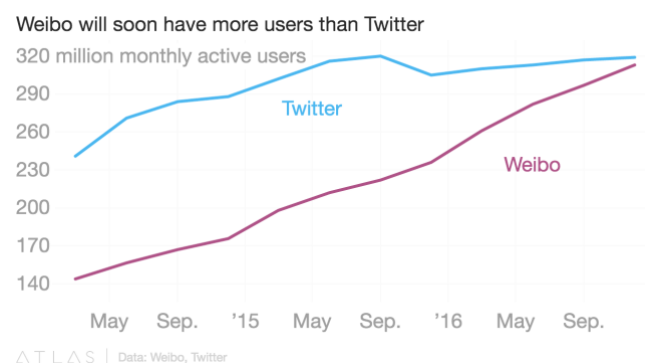


Figure 5 Users of Weibo and Twitter (source: <https://theatlans.com/charts/BydWFfW9e>)

TikTok

TikTok is a Chinese company based in Beijing, founded by Zhang Yiming in 2012, which provides video sharing. It is used to create short dance, lip-sync, comedy, and talent videos. TikTok has been online since September 2016. In 2018, there were already 150 million active regular users in China and over 300 million active visitors per month. (Yu, 2019, p.28)

In the Overseas version of the TikTok app store, more than 500 million active users worldwide are now the most commonly downloaded version of the IOS app store. People across China have joined the TikTok age. This can be said, TikTok is the industry leader in short video audio, which concentrates on vertical hearing. (Yu, 2019, p.28)

Search engine optimization: Baidu

Search engine optimization for a Chinese audience is quite different then for Western crowd. Although Google is used by some people in Mainland, most popular search engine is Baidu. There is also other search engines in China, such as: Baidu: 65.96% ,Haosou 360: 12.19%, Google: 9.49%, Bing: 6.15%. (Marketing in China, 2019)

Influencers and KOLs in China

Nowadays people are constantly connected on computers or mobile phones, social media influencers have a huge effect on Chinese consumers across social networks. KOL stands for Key Opinion Leader, who play a significant role in marketing campaigns of the social media. A person who has large number of followers or fans on various social network sites is an Influencer. (Zuani, 2016, p.31)

The influence of these online famous personalities appears to have a remarkable leading role for Chinese people. When influencer publishes a content or share a photo, it can dramatically attract huge audience. Companies would use it as a tool to collaborate with these influencers that can help with their promotional campaigns. (Zuani, 2016, p.32)

About 70% of Printul's main customers are from influencers and some big corporations like Coca-Cola, that help with their promotional products. Strategy of selecting an influencer or a company involves selection of an individual with charisma but also an

individual who can provide value for the company. On the other hand, KOL's position in social media has a great impact and is regarded as a specialist in a given subject, whereas an influencer may lack of particular knowledge but a huge follower's admiration. KOLs are mostly represented by influential public figures who are very important and powerful, so their ideas and opinions can be heard with influencer marketing tool for the strong brand recognition. (Zuani, 2016, p.58)

Lastly, get to know Chinese calendar is also an essential marketing tool to promote your business in China. Like Western marketers, they set out for the pre-Christmas shopping days of the year, the black Friday and the cyber Monday at the end of November. In China, the big festivals are very different from Western world. For instance, there is Chinese shopping festival that hold in November 11th, so called "single day", targeting people who are single and offer an excuse to buy presents for yourself on this day to celebrate their single relationship status. (Zuani, 2016, p.58)

2.6 Market entry modes

When businesses want to expand globally, they will have to decide on a market entry strategy that involves a marketing plan and market entry mode. This may not always be an easy task, because the choices are influenced by many factors and variables, such as the risk that a company is prepared to take, the degree of the control required for the entry strategy, the company's foreign venture goals and objectives, and the competition level in the market.

This will influence final decision of the company depending on whether to commercialize goods, services, intellectual property, venture capital or operate a warehouse, subsidiary, facility in the foreign market. (Cavusgil, Knight & Riesenberger, 2012, p.402-403)

Companies have several modes to enter a foreign market, falling under the category of export modes, intermediate modes and hierarchical modes. They may either enter into contracts, contracts with licensees, franchises, distributors or suppliers of services, or establish international subsidiary companies. These extensions may either be wholly-owned by the company or the company may partner with other companies, create a joint venture and share the ownership of the new international subsidiary. (Brouthers & Hennart, 2007; Hollensen, 2008, p.215-216).

2.6.1 Exporting

For companies that are in their infant phases of internationalization, exports are typically the most common entry strategies option, because the knowledge of the foreign market and transactions are limited, the cost is smaller, more versatile and the risk is not that high, as compared to foreign direct investment (FDI) or a joint venture. (Cavusgil, 2012, p.406-407).

Company typically produces and exports its products directly or indirectly to the foreign market in the domestic market or in a third country. The reason why the knowledge of foreign market is not strictly required and have generally lower risk and cost is because local company maintains its production activities in its home market. In terms of marketing, distribution and sales operation are managed in the foreign market, company usually chooses an intermediary organization such as an agent or distributor. (Hollensen, 2008, p.215-216.)

Many export networks are open to companies but can be categorized into three main types: direct export, indirect export and cooperative export.

Direct export

Direct export refers to delivery to an independent intermediary of products or services, it can be either an agent or a distributor located in the foreign target market. (Hollensen, 2008, p.222).

Agent and a manufacturer in international supply chain does not necessarily mean the same role. Both represent export business that exports and sell products, while the agent receives the exporting company a service fee and a distributor places exporting company's order, stores goods, sets sales conditions and sells the goods to any consumers it prefers.

In other words, an agent's main duty is to find buyers for the exporter and to market their goods and earn a fee based on their results, market size and its importance. An agent is not concerned with the funding, promotion or selling of products between the exporter and the consumer. The distributor purchases the product on its own account from the exporter, stores the product and sells it at the most competitive price to the target market.

Indirect export

Indirect exports occur when exporters export their goods to foreign countries using independent export organizations based in their own country. Thus, it can be said that the manufacturer does not engage in foreign trade, because its exports are carried out overseas by other firms.

The indirect exports method is generally used by companies with restricted international goals for expansion, requiring disposing of surplus inventory or lacking resources to go international on their own, want to enter the market carefully without having much risks and commitment at the beginning. (Albaum & Duerr, p. 446-447; Hollensen, 2008, p.218.)

2.6.2 Contractual entry modes

Contractual entry mode also known as intermediate modes, consist of a series of contract arrangements, such as franchising, licensing, joint partnership, contract development, leasing and management contracts. These modes of entry are based on special agreements between two or more companies. (Hollensen, 2008, p.230)

Licensing

Licensing is typically chosen by highly advanced tech companies, which could give a company the right to use intellectual property of another company for a certain time in return for royalties or other benefits. The licensee usually must pay a fixed down payment plus a continuous royalty, which ranges between 2% to 5% of the gross profits. (Jobber & Lancaster, 2012, p.196)

Intellectual property refers to the “*ideas or works created by individuals or firms, including discoveries and inventions; artistic, musical, and literary works; and words, phrases, symbols, and designs*” (Cavusgil et al. 2012, p.464). According to Jobber & Lancaster “*The company that gives the right to another company to use its intellectual property is the licensor and the company who uses that intellectual property is called the licensee.*” Traditional licensing arrangement involves a company seeking to use the copyright product, trademark or copyright of another company or individual. There are different forms of intellectual property, including patent, trademark, copyright, an industrial design,

and a trade secret. Royalty is a fee that the licensee charges to the licensor annually. (Jobber & Lancaster, 2012, p.196)

Licensing is a suitable option when it is very difficult to export because of import duties and non-tariff barriers are obstacles for exporters, or because direct sales are not possible by intermediaries like agents or distributors due to the regulations in host country. (Jobber & Lancaster, 2012, p.196)

Contract manufacturer

Contract manufacturer is a situation in which business controls its goods in international markets for their research & development, marketing, distribution, sales and services, it is also a form of outsourcing. However, it gives responsibility for production in another manufacturer location in the foreign target market. According to Hollensen (2008, p.228) contract manufacturing is defined as *“is outsourced to an external partner, specialized in production and production technology.”*

During contract manufacturer usually includes payments from the contractor to the contracted company per unit basis, meaning more products contracted company can produce the more money it can make.

Benefit of this approach is that it gives contractor firm more flexibility because if the contract company does not meet quality requirements or can't manage the production process properly, the contractor can simply change to another supplier, taking into consideration length of the contract as well. (Hollensen, 2008, p.230)

Joint Venture and Strategic alliance

Joint venture can also be defined as a contractual arrangement in which for a specified time, two or more separate entities form a legally independent entity, usually one being a local company to establish a new company to produce products, services or conduct a project jointly. That is a temporary relationship, which may or may not have a particular name for a certain reason. Strategic alliance has similar definition, with key difference between the two is that in strategic alliance there are usually no equities or it is subject to put investment in alliance whereas joint venture they do. (Business Jargons, 2018)

In other words, it also means a joint venture or strategic partnership based in various countries, which can complicate the management process, for example, in the face of cross-lingual communication and coordination difficulties and raise monitoring costs for local partners. (Chiao et al., 2010, Pan, 1996) On the other hand, Gatignon and Anderson (1988) argues that a local partner would help foreign investors overcome the cultural difference between home and host country.

Another good reason to join a joint venture is because the risks and costs are divided by involving in an international plan together. Revenues are also shared as well, but if a company wants to grow to a global market more quickly and has an immense expansion plan, the production of new technologies will need funding from other partners who would provide the technologies to comply. (Hollensen, 2008, p.237)

Nevertheless, joint ventures have been found to be highly profitable because partnership with a foreign partner can bring new technologies and can be launched and enter the market faster. This is often viewed as a better option by developing countries than foreign direct investment as it provides a competitive advantage on the market. (Hollensen, 2008, p.237.)

Management contract

Management contract is a term where a company provides management services, managerial- know-how knowledge to another company that offer the resources and value chain functions for the business in foreign market. The process is that the company provides the local workers with the skills and knowledges. The managerial know-how company earns a fee which is fixed irrespective of financial result or can be based on a percentage of the profit made. (Hollensen, 2008, p.242)

2.6.3 Hierarchical entry modes

When a company decides to enter a foreign market that could shift most or all of its operations abroad and it will go through different stages of internationalization. Such phases include ethnocentric orientation, polycentric orientation and geocentric orientation. (Hollensen, 2008)

This ethnocentric approach refers to the situation in which a business is represented by domestic sellers, which means a sales manager residing in his or her home country travels abroad to do sales instead of recruiting local people in foreign market. In polycentric approach, the company is represented by the subsidiaries of the manufacturing firm in the market. Instead of using domestic representatives, the company may have a foreign office with local sales agent or set up a wholly owned subsidiary. (Hollensen, 2008)

Hierarchical mode of entry means the company entering into a foreign market with full control of its operation abroad. According to Hollensen (2008), if a company does not want to have full control then it would run under export mode or intermediary mode market entry mode. These hierarchical modes of entry require a serious commitment, financial resources and willingness to take risks, but on the other hand, these modes are most profitable within greater control. (Hollensen, 2008)

Acquisition

An acquisition is a direct investment in an established business or facility by a corporation. These investments are helpful for companies which want to enter market quickly or enter a market already saturated with competition. (Cavusgil et al. 2012, p.444)

Acquisitions are a convenient way to start business in another country, since buyers have direct access to facilities, equipment and employees of the other company as well as to the existing suppliers and clients. But the downside of acquisition mode is that they are extremely expensive, need to bear higher risk and communication and teamwork issues can occur between the purchaser and the acquired company. (Cavusgil et al. ,2012, p.444)

Merger

Another type of acquisition is a merger, which means that two companies of the same size combine to form a new larger business. (Cavusgil et al. 2012, p.445)

Greenfield investment

When a business wants to start from scratch and invest directly in a completely new manufacturing, marketing or administrative facility abroad. A greenfield investment is a method of market entry mode that is widely used to achieve the maximum degree of foreign control by a company. (Virkki, 2014, p.21)

Instead of purchasing a new company, a company may choose to buy a vacant land and build a new facility because it may not have sufficient acquisition goals, business financial capacities, or manufacturing logistics are essential to the industry's success. Thus, when a company wants to build a new plant in foreign countries, it can build and shape it as it wishes and combine the latest technologies and equipment. (Virkki, 2014, p.21)

Wholly foreign-owned enterprise (WFOE)

Wholly foreign-owned enterprise is a popular foreign business investment vehicle that wishes to take fully control in the Chinese market. WFOE established under the Law of the People's Republic of China on WFOEs -the "*WFOE Law*". (CBBC Guide)

The most distinctive feature of WFOE is that it is not necessary to involve a Chinese investor, unlike most other investment types, such as a joint venture, it is a requirement to have a Chinese investor on board. A company that choose to establish a subsidiary in other countries, which means that it owns and operates by an individual, but that it has to conduct business in accordance with the local laws, norms and taxes of the host country where the company is located. (Hollensen, 2008, p.244).

Wholly owned business mode provided a higher level of protection, particularly the government regulation against unfair competition and intellectual property rights is inadequate and inefficient in China. (Yue, 2017).

2.6.4 Factors influencing the market entry mode choice

The decision of a firm on which mode of entry depends on several factors. Following factors are classified into four major categories:

External factors

External factors that influence decision-makers' choice of entry mode are those factors company cannot fully control. These factors include production on the target market, environmental factors like economic, socio-cultural and political factors. In addition, external factors include risk level, direct and indirect trade barriers, competitiveness and intermediary availability. (Cavusgil & Ghauri, 1990, p.21-22; Hollensen, 2012, p.224-225.)

These market factors are very important indicator to a firm to decide which entry mode is more suitable for them. If the target market has strong potential for growth, companies would be more likely to invest in it and will consider engaging in a joint venture. On the other hand, if the target market growth is small, companies may choose exporting or contractual arrangement such as franchising or licensing.

Internal factors

Internal factors are referred to as aspects relating to issues within an organization. These factors include the size of the firm, characteristics of products or services and amount of international experience. Companies with a lot of international experience know how things work and therefore willing to take greater risk and invest more in the foreign markets. They usually decide to adopt foreign direct investment, such as WFOE mode. On the other hand for SMEs usually start with export mode of entry or using intermediate modes, it is because SMEs tend to lack of resources, such as a requisite capital to enter a new market. (Cavusgil, 1990, p.22)

If a company requires highly technical expertise, such as installation, training in after sales services. Therefore, it is best if the organization uses a hierarchical entry strategy and establishes a wholly owned subsidiary which can make the marketing and after-sales operate more easily.

Transaction-specific behavior

Transaction-specific factors refer to the factors related to the transactions made by a firm. Transaction costs occurs when the market lack of fair competition and there is tension between buyer and seller. To be able to avoid this, the parties shall sign agreements that specifically specify parties' rights and obligations. For instance, contracting costs are those expenses that occur during negotiation and contract drafting

between two parties. Costs of compliance are those associated term in the agreements. Enforcement cost comes from trading partner who does not perform as agreed in the contract. (Hollensen 2012, p.60-59, p. 227)

Desired mode characteristics

Based on the size, age, product or service of a company, the products or services they want to sell, an organization may want more control over foreign operations. This means that more commitment will be needed. In fact, the more leverage a business requires, the more risk it takes and the less flexibility to take on foreign markets. (Hollensen, 2012, p.226-227)

When a company's top managers don't want to take chances in foreign operations, they will vote on modes of export or intermediate methods such as licensing because it meets company's financially with low investments and do not require much of the management's commitment. (Hollensen, 2012, p.226-227)

2.6.5 Overview

When deciding the mode of entry, business factors are very important. When the target market is in a good growth, businesses will need to prepare more resources, and will be willing to consider the opportunity to enter or engage in a joint venture. On the other hand, businesses may choose to use export or contractual arrangements such as licensing as an entry mode if the target size of a market is limited.

3 Methodology

This chapter discusses methodologies and approaches used in this research process and how they were implemented and how they influence decision.

Methods aim to collect information that is used in secondary data from desktop studies and primary data collected through qualitative research. Desktop analysis includes information gathering from existing data, such as books, journals, papers and other publicly available documents, which means that other content have been collected for a primary purpose other than direct research. (Burns & Bush 2014, p.122).

This chapter will explain methods and results in more details as well as challenges that occurred during research.

3.1 The definition of research

According to the American sociologist Earl Robert Babbie, *“Research is a systematic inquiry to describe, explain, predict, and control the observed phenomenon. Research involves inductive and deductive methods.”* (Earl R. Babbie, 2012) Research refers to a term which commonly used to find interesting or new information in any kind of investigation.

Research is carried out to determine the validity of a theory or an interpretative framework. To collect a body of information and communicate it in an appropriate manner. Seriousness in which the research is carried out will be reflected in the quality of the results. (Walliman, 2011, p.1)

Research methods are instruments and techniques for doing a research. It can provide a number of tools that are used for specific forms of study and they often include a variety of tools for different functional tasks. (Walliman, 2011, p.1)

3.2 Research process

Research can be seen as a systematic and focused research method in order to improve knowledge on a certain subject area. Research process is important because while research is now seen as an integral part of the position of every researcher, it takes time and energy to engage actively in the process. It may also be confusing but it is highly fulfilling and both practical and intellectually rewarding to fulfill the challenge of successful research. (Arthur & Hancock, 2009, p.4)

According to Gratton & Jones, 2010, the research process can be defined in figure 3. It is a very generalized research model. In reality, people do not usually follow the process step by step, but sometimes move back and forth between the elements or do two or more, in particular when you are doing a more interpretative or qualitative analysis. The research process that refer to consists of eight elements.

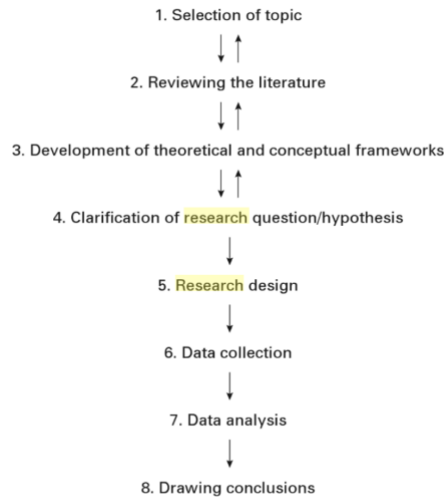


Figure 2.1 The research process

Figure 6 The research process according to Gratton & Jones

It is important to note that these steps are not independent or separate stages, but in fact part of an overall process. As previously mentioned, the order of the steps can also be different with other analytical approaches. For example, a qualitative research that may have continued combination of literature review and data collection. (Gratton & Jones, 2010, p.15)

Therefore, depending on the nature of the work, author suggest you should be prepared to be flexible. Nonetheless, it is crucial that you maintain inside the entire research project a sense of coherence. Whatever approach you take it should be the topic of study and all of that will lead to the response to this problem during the research process. (Gratton & Jones, 2010, p.16)

3.3 Type of research

The main different types of research can be categorized by its purpose, its process and its effect. There are three purposes of research exploratory, descriptive, explanatory.

Exploratory research

Exploratory research is a set of questions that are discussed by exploratory analysis. Some specific issues are usually have not been previously discussed, therefore the

research is carried out when a topic needs to be fully understood. Exploratory research is a method for more conclusive research and data collection. However, exploratory research may be very informal. (Sebunje, p.1; Bhat, 2019)

The purpose to conduct exploratory research is to examine and discuss the issues and not to make a conclusion. These works would allow researchers to lay a basis for the study of a concept or theory. Further, the research aims to choose the right research design and identify variables that are relevant to the analysis. On the other hand, exploratory research would help companies to save time and resources and enable a researcher to know if it is worthwhile to pursue a specific research. (Sebunje, p.1; Bhat, 2019)

In this thesis, the context and research would adopt into exploratory research. The research is based on a study of literature of the business environment in China as well as in-depth qualitative interview with the management team of the company in Latvia.

Descriptive

Descriptive focus on explaining current problems by means of data collection process. It is used to identify and collect information on the features of a certain problem. Descriptive research must describe the behavior of a sample population and requires only one variable to carry out an analysis. There are three objectives of descriptive research which are describing, explaining and validating the findings. (Sebunje, p.2; Bhat, 2019)

The data in descriptive are mostly quantitative and the knowledge is usually compiled using statistical techniques. Descriptive experiments could go beyond exploratory research to analyze a problem as the characteristics of the problem are measured and defined. (Sebunje, p.2; Bhat, 2019)

This thesis does not adopt this type of research. One of its major drawbacks is that it cannot help determining what causes a certain behavior, motivation or intention. In other words, a casual research link between variables cannot be formed. (Sebunje, p.2)

Explanatory

According to Seburnje, *“Explanatory research is a continuation of descriptive research.”* In addition to defining the features, the researcher analyzes and explains how or what is happening. Therefore, explanatory work attempts to understand phenomena through the exploration of casual connections between them. (Seburnje, p.2)

3.4 Qualitative and Quantitative research

There is no consensus about how the actual research project should be conceptualized. However, there are two main principles of a quantitative and qualitative research approach. Any approach involves different methods of analysis. (Seburnje, p.4)

Qualitative research

Qualitative research refers to a method that provides in-depth, complex, detailed interpretation of an action, attitudes, behaviors and intentions. (Cohen, Manion & Morrison, 2011, p.219) It collects information directly through an individual or group of people by observation or interview and then to analyze and interpret it. (Burns & Bush 2014, p.146). This is study method that usually uses words instead of quantification in data collection and analysis. (Bryman, 2008, p.366)

Quantitative research

Quantitative analysis tool is a technique used to deal with numbers and everything that can be calculated in a systematic way and analyze a phenomenon. This is used to respond to questions in order to describe, forecast or monitor a phenomenon in relation to observable variables. In this method, the researchers are likely to be unbiased.

Methods that will be used such as surveys and experiments and attempt to test hypotheses or statements with a view from generalizing the data.

3.5 Qualitative interview

The reason why a qualitative research method is very useful in this study is because it gives a deeper understanding of people. This helps the researcher to see and

understand the context under which decisions and actions are made and will be able to see why such actions or implementations are made. (Myers, 2013, p.5-6)

Through qualitative analysis, the primary data have been gathered through a face-to-face interview. The reason to choose this method is because it could obtain more detailed knowledge and motivation about why Latvian managers wanted to internationalize. Different market entry modes and understand which factors influence the decisions.

Therefore, the persons who were interviewed were Krisjans Ozols and Niks Evalds. Krisjans Ozols is the head of Business Development in Printful and Niks Evalds was working as digital marketing before and now he is the head of IT Integration at Printful. The main task for him is to learning experimenting the new integration project. They act like consultants and businessmen for the company to provide a great insights and opportunities when entering the Chinese market.

Krisjanis Ozols is an important role for the company. He represented company to explore new foreign market for business opportunities and forming new partnership in foreign countries. The company has been entering the Japanese market as the most recent successful development in 2019.

The interview took place on the 30th of March 2018 directly in Printful's headquarter in Riga, Latvia. The interview took around an hour. The interview has categorized into four sections: General questions, Firm-specific, Institutional context and strategic element in which consisted of total 18 questions.

3.5.1 Responses

This chapter would break into three sections to discuss and findings from the interviewees.

General development of entering the Chinese market

According to Krisjanis and Niks first response about the reason to enter the Chinese market is because all the company management team, including CEO were aware that Asian markets has high demand when it comes to high-quality print-on-demand

manufacturing. Krisjanis told the plan of entering the Chinese market back in the year of 2017. He told there aren't many Western companies enter the Chinese market and lack of print on demand business culture in China. He aims to promote the online entrepreneurship ecosystem to the Chinese.

They have been partnered up with a company registration firm in China, but lack of local language knowledge, it is still very challenging for them to operate and communication with them. Therefore, after a few months of unsuccessful partnership, they decide to hire a Chinese-speaking intern to help them do a market research about the Chinese market.

Printful aims to adopt WFOE term when register a company and operate in China. The main reason to affect this mode is because they didn't know what kind of law they had to deal with and if they would choose joint venture or acquire a Chinese company they would not expect that they would find a reliable Chinese partner to do business with. On the other hands, they would choose the partners that a local Latvian or foreigners with whom has good connection in China as identified more trustworthy.

After deciding the market entry mode, the next step was to face up to and tackle the difficulties of operating a fully foreign-owned business in China. The first challenge was to obtain a business license which could take several months. A company needs to first have a company premise first before starting its business.

Since the official laws developed by China's National People's Congress vary in Chinese 22 separate provinces, it is really hard for a foreign business to be able to proceed and whether the so-called relevant law is still in force. This is a struggle to dealing with local authorities. Further, the Chinese authorities would continuously track and determine whether the service of the foreign business is authorized accordingly. Therefore, as a foreign enterprise you have to obey the different rules of the labor, business code. On the other hands, Chinese firms do not have to obey them precisely.

Effect on interviewees' opinion and how it affects consumers in China

According to further obstacles that they faced in China, they found out that it is very important to have a local partner in China, who has awareness of how things work, how laws function, how businesses operate and meet the right people to establish relationships with the government and the local political authorities.

For this reason, they told that they may potentially agree to adopt a joint venture by outsourcing a factory so they could partially control and operate by knowing the risks as well.

It is important to find the right partner to create a win-win situation. Secondly, adapting the market to attract the Chinese demand, even if the technology is superior in relation to the demand, is necessary. According to Krisjanis, European businesses always believe they should pay for their technology because it is so fantastic, but this is a very high price. However, the price must be as high as in China, given the fact that people willing to pay more for technology in Western countries.

When it comes to market their brand, the main strategy would be using key opinion leaders in China, because they can build a dialogue and make ads even more appealing because the it is the real people exchanging ideas about a product which tend to appear more “consumer-friendly” as well. Further, KOLs can easily market themselves by making their promotional products through Printful.

Nowadays China has a lot of resources when it comes to manufacturing but the print-on-demand technology still far from to be developed.

3.5.2 Research result

This sub-chapter is broken down into two main objectives on answering the research question and result as an overview.

Market entry mode

The results of the interviews and the theoretical literature indicates that for foreign print-on-demand company such as Printful it is better to have a local partner in China, who would assist them to get started. This type of partner may be an agent who did a lot on the local market or a local partner company. Their guidance on how the business needs to reach the Chinese market and get meetings from important government officials and local authorities will be much simpler. Thus, a joint venture or a strategic alliance would be a good entry mode option.

Business Environment in China

China will become the most strong and important growth market in the world. With regard to technological growth, China E-commerce market and manufacturing will continue to expand. Strategies should include various methods, including shifting in common product categories, awareness of brands and distribution channels.

According to secondary research into the current Chinese business environment. Foreign companies are facing both threats and opportunities of social and technological factors due to the constant reshaping of the consumer market in China. In the past, conventional marketing tactics will either no longer be applicable or will have to adapt to the changing technology. Market itself is re-developing and companies have little or no value for the new Chinese wave of customers and social media developments.

Before starting a company, it is necessary to recognize the macro-environment in the foreign country. The political, economic, social, technological, legal and environmental aspects should be considered. It can ensure the legitimacy of a company and choose the right business investment decision and most importantly, a better relationship with customer with right marketing techniques.

Business culture in China

According to the observation from literature review and Krisjanis. Most of Chinese businesses are state-owned which have an advantage and are better managed than foreign businesses so that they are clearly not regulated so closely by the authorities as foreign companies.

The government of China has a major impact on industry, so it is very normal to work with government and local governments and to have good ties with them. A multinational business must also be prepared for the unexpected. Corruption is also a common phenomenon in China. For a foreign corporation, the best choice is to find a reputable partner in China that you can do business with.

4 Limitation

This is an informative research experience. There are numerous information sources and theories to search for as the research also focuses on the most recent data. Theoretical part of this thesis is based on the literature about market entry modes,

Chinese business customs, and theories related to print-on-demand as well as other information found from the Internet.

The initial work was done during November 2018 to January 2020. As handing the work draft during March there are room of improvement when it comes to theoretical part. Therefore, the process of the research and study the literature was done during March to April this year as well as written down and compile all the correct information. The interview was conducted in end of March 2018. Responses were written down as a note in March 2018 and analyzed in April 2020.

Information to be searched was numerous and the research focuses on the most recent data, so finding information such as papers and studies on the subject was not too difficult. In the most part of literature review is not very hard to find especially when it comes to market entry mode for foreign companies and an overview of PESTLE analysis of China. However, since Printful is relatively new-established company and print on demand concept only occurred in the past couple years, this particular subject and theory is very challenging to find and considered as the hardest part of the research.

As matter of fact, there are more useful material to be applied to that research, but the work would have turned out be too broad and there would be no demarcation as expected.

5 Conclusion

“There are two different ways to be successful in the market: either you are selling on price, and offering the best price, or either you are the best, you are selling the best quality, best performance, and then get a higher price.” —Goran Berg

Nowadays, people are not only buying things in a traditional way through a physical shop, but advancement of technology has evolved, and people buy products online. Print-on-demand is relatively new term and this research aims to provide better understanding what are main characteristics of print-on-demand that can affect Chinese market. With print-on-demand, it's easy to think you're selling customers product, but a long-term sustainable strategy is not only the product you offer but you are selling insights, technology, and complex solutions. From marketing point of view, key success factor is being able to drive traffic to your new website or business. Foreign companies need to

pay attention of political restrictions, take into consideration unique consumer behavior and different channels of communications in China.

China has long history of culture and language, and it is important for readers to understand how to be successful in Chinese market. Therefore, thesis extends research of offering a full picture and examination of the culture in China by seven cultural dimensions of Hofstede, which includes power distance, individualism and collectivism, masculinity and femininity, uncertainty avoidance, long-term and short-term orientation, indulgence and restraint.

For market entry mode, the best choice for Printful is to seek a partner to expand the market in China by entering a joint venture or a strategic alliance. Chinese local partner would advise and help Printful with all potential obstacles. They can assist to establish connections with potential suppliers, clients, influencers and eliminate the constraint with local government and consumers.

Nonetheless, establishing WFOE would need longer time, financial resource investment, time investment and would result in rather higher risk. On the other hand, a partnership could result in lower risk in losing money as well as depend on the agreement with another partner. This type of entry mode would be suitable for foreign companies who aren't familiar with Chinese business ecosystem. Potential partnership can be with local Chinese partners or a Latvian/ Western companies that work in same industry in China.

Final reflection

Entire search took a lot of time and efforts to complete, but it also provided great learning experience. In this project, subjects like planning, time management, decision-making and analytical skills were involved. It is important to control time and make right decisions. Research and writing were those things that could have been done better, but they require more time and practice. Nevertheless, this research is a valuable experience either for future workplace or for individual personal development goal to train your mind and develop critical thinking.

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7 Appendix

Appendix A: Interview questions

The purpose of interview questions is to collect data for my academic study project. This data will be used for our own internal analysis.

- General questions:
 1. Can you introduce your background, and your connection with china?
 2. When did you start your e-business in china? Can you explain your business concept, ie. Products, brand and business mode?

3. What was your major objective when decided to enter the Chinese market?
4. Do you find it difficult to register a company in China as a foreigner?
5. Can you explain how do you choose a partner?
6. Do you find personally presented in China help you operate your business?
7. What is your overall opinion regarding Chinese consumers' attitude toward foreign brands?

- Firm-specific resource

1. How is your organization relationship with your external partners, for example, your products suppliers?
2. To conduct the business, how does your personal network help your e-business in China?
3. What obstacles did you encounter during the whole business setup in China?
4. What are your key resources, which give you the competitive advantages (in terms of valuable, exclusive and your business model that is different from local companies?)

- Institutional context

1. Is your business closely related with the local government regulations? Since the regulation regarding E-business keeps updating, does that closely affect your business?
2. To follow up the last question, are you very sensitive to the government regulation? Are you consistently cautious about the regulation change?
3. What is your general impression or comment of E-business environment (i.e. infrastructure, logistics, online payment etc.) in China?

- Strategy

1. How is your business reputation with your customers' feedback?
2. What is your effective business strategy in order to reach larger online customers?
3. What are the biggest opportunities and challenges will you say, for operating e-business in china?

4. What is your future business ambition? What suggestion you will give for the new comers who are SME e-business startups and interested in Chinese market?

Appendix B: Company registration process in China

There are two ways for successfully register a foreign entity in China, one is obviously set up by yourself through a procedure, in which is more time consuming but it can save a lot of money. There is a problem when you register as a foreigner it may require more of a step. Certainly, it will be much easier to register with a Chinese person. Since different cities has different policies and tax incentive, therefore, it would require a substantial market research to choose which city is best for your business.

In the case of what Printful is doing as a foreign e-business, here below you can see how standard procedure for setting up a company:

- 1) Choose the company name in Chinese, and have to meet some certain criteria, for example, there shouldn't be a name associate with national sensitive name.
- 2) Lease an office or facility: the company shall have a minimum of 12 months rental period.
- 3) Apply ICP (Internet content provider) licensing: issued by Chinese Ministry of Industry and information technology (MIIT), you will have to get this license allow you to operate an online E-commerce website.
- 4) Register the company and obtain the approval from ministry of commerce (MOFCOM).
- 5) Getting a five-in-one business license: you shall register and apply for business license in local Administration for industry and commerce (SAIC). The documents shall include: business license, organization code, tax registration certificate, social security registration certificate, ICP license.

Once you get these documents, it means that your company is legally existed in Mainland, this type of license particular for E-commerce business.

- 6) Register with the public security bureau: to obtain company chops in China.
- 7) Open a foreign exchange account and an RMB bank account.

Secondly, if you choose to partner up a sponsor (company registration agency) would probably be an advisable move especially you are a foreigner who doesn't speak Chinese. To cooperate with an agency, the company can simply tell their needs, preferences, and the agent would provide a holistic consultation and implementation to make the registration successfully.

Appendix C: Taxation in China

In recent years, there has been growing concern over the need to provide better and more efficient regulation of E-commerce. This includes the need to address issues of counterfeit goods, consumer fraud, privacy, intellectual property (IP) theft, tax evasion and promotion of competition and consumer protection. On January 1, 2019, China's new E-commerce law took effect. The new law builds upon earlier reforms of China's legal system. One important feature of the new law is the requirement that online businesses must register their business and acquire all necessary licenses regulating particular activities.

There are two ways of regulating E-commerce platforms in China, depending on what kinds of approaches to make the business. If Printful choose to ship from its own factory in Latvia and aims to selling the products in China without set up a Chinese business entity. This would lead to a focus on the Chinese Cross-Border E-commerce (CEBC) market, this type exclusively established for foreign entities that would sell their products directly to Chinese consumers. which there is an increase in the tax-free amount for cross-border purchases. For a single transaction, the limit is now 5000 RMB and in a year the new limit is 26000 RMB. Purchase within these limits will not be charged import tariffs.

